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Office of Hon. IP LAU Suk Yee, Regina

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2 September 2009

Hon CHAN Kam-lam, SBS, JP  
Chairman, Panel on Financial Affairs  
Legislative Council  
8 Jackson Road  
Hong Kong

*Dear Kam Lam*

**Hong Kong Mortgage Corporation (HKMC)**

I refer to the Administration's response (CB(1)2055/-08-09(02)) to my letter dated 1 June 2009 via this Panel.

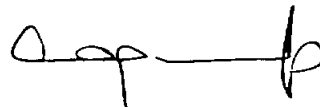
Although the paper sheds some light on certain information previously unavailable in the public domain, the Administration completely fails to provide legitimate arguments in defending HKMC's involvement in high-risk investments, which have gone far beyond the objectives of its establishment:

- (a) In paragraph 6, the claim that "The HKMC's overseas activities are often undertaken in collaboration with the relevant central banks" is dangerously misleading. Cagamas for example, in spite of being so called "national mortgage corporation", is in fact 71% owned by commercial banks and 9% owned by investment banks. If HKMC were owned by private sector entities to the same extent, we would be comparing like with like. However, HKMC is 100% owned by the HKSARG through the Exchange Fund;
- (b) In paragraph 7, the Administration claims that "the foreign exchange risk has been fully hedged..." for the purchase of mortgage assets overseas. This is an intentional and misleading withholding of material information to the public by the Administration on the risk structures of mortgage-backed securities: what about the interest rate fluctuation risk, the prepayment risk, the mortgage-default risk, and the counterparty risk? Did HKMC hedge all these as well?

- (c) In paragraph 10: even if “the interest rate of the [revolving credit] facility [by the Exchange Fund] is deliberately set at a level that is above the HKMC’s average cost of funds under normal market conditions”, we have to consider what is HKMC’s average cost of funds under normal market conditions. Because of its tie to the Exchange Fund, HKMC easily obtains a triple-A credit rating and that rating provides cheaper funding to HKMC than most of the listed companies in Hong Kong. Or put it this way: is there any single commercial bank in Hong Kong that has a higher/equivalent credit rating (which means cheaper funding) than the HKMC?
- (d) In paragraph 11, the Administration emphasized that “The HKMC’s Memorandum and Articles of Association deliberately preclude the Corporation’s entering into mortgage origination...” If that is the case, can the Administration respond to the rumor we heard from various sources that HKMC is currently seeking consumer credit data from TransUnion? Why does the HKMC need the credit data and would there be any infringement of the Personal Data (Privacy) Ordinance?
- (e) In paragraph 15, the Administration admits that it “takes into account the market bonus payout level and the relative performance of the HKMC against that of locally incorporated banks...” in determining the performance-based bonus level for HKMC executives. We have to ask this question: why on earth should the management of a public sector entity be paid in accordance with the “Return on Equity”? Given all the tangible and intangible advantages a public sector entity like HKMC enjoys in terms of access to cheaper credit, backing by the Exchange Fund and close ties to the Hong Kong Monetary Authority, is it fair to compare the financial performance of the senior staffs of HKMC with that of private companies?

In sum, there are too many unanswered questions that require detailed scrutiny by this Panel. I would be grateful if you could seek answers to my questions above from the Financial Services and the Treasury Bureau, and arrange to have them discussed at the first meeting of this Panel when LegCo resumes from summer recess.

Yours sincerely,



Regina IP LAU Suk-yee (Mrs.)

c.c. Other Members of the Panel